

**STATE OF ILLINOIS
BEFORE THE ILLINOIS COMMERCE COMMISSION**

Interactive Services, Inc.	:	
	:	02-0378
Application for a certificate of	:	
local and interexchange authority to operate	:	
as a reseller of telecommunications	:	
services throughout the State of Illinois	:	

OFFICIAL FILE
I.C.C. DOCKET NO. 02-0378
Applicant's Group 1
Witness smtn
Date 6/19/02 CLK

**TESTIMONY OF DAN SMITH
IN SUPPORT OF INTERACTIVE SERVICES INC.'S APPLICATION**

Q: PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND TITLE FOR THE RECORD.

A: My name is Dan Smith, and my business address is 9 S 412 Frontage Road Willowbrook, Illinois 60527. I am the Executive Vice President and Chief Operating Officer of Interactive Services, Inc. (the "Company").

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: I am testifying in support of the Application of the Company for a certificate of service authority to operate as a telecommunications carrier within the state of Illinois.

Q: ARE ALL STATEMENTS IN THE COMPANY'S APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TRUE AND CORRECT TO BEST OF YOUR KNOWLEDGE, INFORMATION AND BELIEF?

A: Yes, unless as modified in this testimony.

Q: CAN YOU BRIEFLY OUTLINE WHAT RELIEF THE APPLICANT SEEKS?

A: Yes, I can. As described in this Application, the Company requests an order from the Commission granting Interactive Services, Inc. a Certificate of Service Authority under Sections 13-404 to provide resold interexchange telecommunications services within the State of Illinois, to the extent permitted by law.

Q: PLEASE DESCRIBE THE COMPANY'S CORPORATE STRUCTURE.

A: The Company is an Illinois corporation. A copy of the Company's Articles of Incorporation is attached to the Company's Application as Attachment B.

Q: PLEASE DESCRIBE THE COMPANY'S SERVICE OFFERINGS AND ITS PROPOSED TERRITORY.

A: The Company intends to provide resold interexchange telecommunications services throughout the State of Illinois, to the extent permitted by law.

I. MANAGERIAL, TECHNICAL, AND FINANCIAL RESOURCES.

Q: COULD YOU PLEASE IDENTIFY THE COMPANY'S KEY OFFICERS AND EMPLOYEES.

A: For a complete explanation of the Company's main officers and their backgrounds, please refer to the Company's Application in this matter, Attachment C. I am the Executive Vice President and Chief Operating Officer of the Company and am responsible for the day-to-day technical operations of the Company. As explained below, the Company's officers and

myself have extensive experience in the telecommunications industry that should satisfy the Commission's concerns regarding the managerial and technical resources of the Company.

Q: PLEASE DESCRIBE THE RELEVANT BUSINESS OR PROFESSIONAL EXPERTISE THAT SOME OF THESE OFFICERS AND DIRECTORS BRING TO THE COMPANY TO PROVIDE TELECOMMUNICATION SERVICES.

A: I would again refer to Attachment C of the Company's Application. As a result of currently operating as a provider of resold telecommunications services, the officers of the Company possess the necessary managerial and technical experience in the telecommunications industry which will be a valuable asset for the Company should the Commission grant this Application.

Q: DO YOU BELIEVE THAT THESE OFFICERS POSSESS SUFFICIENT MANAGERIAL AND TECHNICAL ABILITIES TO PROVIDE THE SERVICES FOR WHICH THE COMPANY HAS APPLIED FOR AUTHORITY?

A: Yes.

Q: PLEASE PROVIDE INFORMATION CONCERNING THE COMPANY'S CUSTOMER SERVICE AND REPAIR CONTACTS.

A: Customers may contact Applicant 24 hours per day, seven days per week at the company's currently operating toll-free number, 1-888-832-6474. I currently oversee the company's

network maintenance and repair systems and procedures. John Howard supervises the Customer Service operations.

Q. PLEASE DESCRIBE THE COMPANY'S INTERNAL PROCESS FOR COMPLAINT RESOLUTION.

A. As mentioned above, the company has a toll-free number dedicated to customer service issues. The toll-free number is staffed by trained customer service representatives familiar with the Company's billing process and offered services. If the customer service representative is unable to satisfy the customer, the problem will be brought the attention of a supervisor. After the supervisor has discussed the problem with the customer, and if the customer is still not satisfied with the result, the customer will be informed of his or her right to file a complaint at the ICC. The supervisor will also be instructed to escalate the customer's complaint to management's attention.

Q. HAVE ANY COMPLAINTS OR JUDGEMENTS BEEN LEVIED AGAINST THE COMPANY?

A. No.

Q. HAS THE COMPANY BEGUN TO NEGOTIATE THE TERMS OF AN INTERCONNECTION AGREEMENT WITH AN INCUMBENT LOCAL EXCHANGE CARRIER?

A. No.

Q. HOW WILL THE COMPANY MARKET ITS SERVICES TO CUSTOMERS IN ILLINOIS?

A. The Company employs sales personnel in the state to contract directly with customers. The Company does not intend to use telemarketing companies, but may in the future. The Company of course will comply with all state and federal cramming and slamming regulations.

Q. COULD YOU PLEASE DESCRIBE THE FINANCIAL RESOURCES THAT ARE AVAILABLE TO THE COMPANY IN THE PROVISION OF TELECOMMUNICATIONS SERVICES.

A. The Company has sufficient financial resources and abilities to provide telecommunications services to customers in Illinois. In support, the Company has attached its most recent Balance Sheet and Income Statement dated December 31, 2001, a copy of which is attached to the Application as Attachment C. Because of the sensitive nature of the information contained in the financial statement, I ask that the Attachment C be filed on a confidential basis.

II. COMPLIANCE WITH ICC REGULATIONS.

Q: WILL THE COMPANY COMPLY WITH ALL APPLICABLE RULES AND ORDERS?

A: Yes. The Company has and will continue to comply with all applicable Commission rules, regulations, orders, tariff and other service requirements relevant to the provision of telecommunications service.

Q. WILL THE COMPANY MEET THE REQUIREMENTS OF SECTIONS 13-301 AND 13-301.1 OF THE PUBLIC UTILITIES ACT AND THE EMERGENCY TELEPHONE SYSTEM ACT (ETSA), 50 ILCS 750.01 ET SEQ?

A. The Company has and will continue to meet all statutory and regulatory requirements legally imposed on them as a provider of interexchange services. That includes complying with the terms of Sections 13-301 and 13-301.1, as well as the ETSA to the extent that these provisions apply to an interexchange provider now or in the future.

Q. WHO IS THE PERSON THAT WOULD SERVE AS THE COMPANY'S CONTACT TO THE CONSUMER SERVICE DIVISION TO RESOLVE CUSTOMER COMPLAINTS?

A. The Commission can contact John Howard.

Q. WILL THE COMPANY FOLLOW THE REGULATIONS PRESCRIBED IN 83 ILLINOIS ADMINISTRATIVE CODE PART 705, RELATING TO THE PRESERVATION OF RECORDS?

A. Yes.

Q. WILL THE COMPANY FOLLOW THE REGULATIONS PRESCRIBED IN 83 ILLINOIS ADMINISTRATIVE CODE PART 755 AND 756 FOR THE DISTRIBUTION AND PROVISION OF TTY AND TELECOMMUNICATIONS RELAY SERVICE?

A. Yes, to the extent these provisions place a burden on a provider of interexchange services, the Company will comply with those burdens and any new burdens placed on it in the future.

III. WAIVERS OF ADMINISTRATIVE CODE PROVISIONS

Q: HAS THE COMPANY REQUESTED ANY WAIVERS OF ADMINISTRATIVE CODE PROVISIONS?

A: Yes. The Company requests that it be exempted from 83 Illinois Administrative Code 710, which pertains to the uniform systems of accounts and 83 Illinois Administrative Code Part 735 to the extent this provision applies to interexchange carriers.

Q. DOES THE COMPANY SEEK A WAIVER OF 83 ILLINOIS ADMINISTRATIVE CODE PART 735 FOR ITS INTEREXCHANGE SERVICES.

A. Yes. The Company requests a waiver of Part 735 for its competitive interexchange services.

Q. ON WHAT BASIS DOES THE COMPANY REQUEST A WAIVER OF THE REQUIREMENTS UNDER 83 ILLINOIS ADMINISTRATIVE CODE SECTION 710 THAT THE COMPANY'S BOOKS AND RECORDS BE MAINTAINED UNDER THE UNIFORM SYSTEM OF ACCOUNTS?

- A. The company requests that it be exempted from 83 Illinois Administrative Code 710, which pertains to maintaining its books and records under the uniform systems of accounts. The Commission may grant a waiver of Part 710 (which substantially mirrors 47 CFR Section 32.18) upon a showing that:

existing peculiarities or unusual circumstances warrant a departure from a prescribed procedure or technique;

a specifically defined alternative procedure or technique will result in a substantially equivalent or more accurate portrayal of operating results or financial condition, consistent with the principles embodied in the provisions of this system of accounts;

and the application of such alternative procedure will maintain or improve uniformity in substantive results as among telecommunications companies.

Q. ARE THERE EXISTING PECULIARITIES OR UNUSUAL CIRCUMSTANCES THAT WARRANT A DEPARTURE FROM MAINTAINING THE COMPANY'S BOOKS AND RECORDS UNDER THE USOA?

- A. Yes. The Company is not required at this time to maintain its books and records under the USOA for its interstate services. Therefore, the "existing peculiarity" is that if the Company does not obtain a waiver of Part 710 for the interexchange services in Illinois, it will have to maintain two separate accounting systems for its Illinois intrastate services (intraexchange and interexchange). Maintaining books and records in this manner would be particularly burdensome on the Company.

Q. IS THERE AN ALTERNATIVE PROCEDURE OR TECHNIQUE THAT WILL RESULT IN A SUBSTANTIALLY EQUIVALENT OR MORE ACCURATE PORTRAYAL OF OPERATING RESULTS OR FINANCIAL CONDITION OF THE COMPANY, CONSISTENT WITH THE PRINCIPLES EMBODIED IN THE PROVISIONS OF THE USOC?

A. Yes. The Company will maintain its books and records according to generally accepted accounting principles, and an independent public accounting firm in accordance with generally accepted standards will compile its books and records annually. The primary purpose of the USOA is to have a stable, recurring method of reporting financial information to allow regulators and management to assess financial performance. (47 CFR Section 32.1.) If the Company is required to now maintain its books and records for its intrastate telecommunications services under the USOA, its books and records would be a hodge-podge compilation of varying systems of accounts. The Company and the Commission can more accurately determine financial performance through the Company's existing system of maintaining books and records. The regulations state that "the USOA has been designed to reflect stable, recurring financial data based to the extent regulatory considerations permit upon the consistency of well established body of accounting principles." By continuing to maintain its records according to generally accepted accounting principles, rather than the exact USOA format, the Company actually satisfies the objective of Part 710. Requiring the Company to switch to the USOA format for some of its services, would create a situation where neither management nor regulators could accurately assess financial events of the Company.

Q. COULD YOU PROVIDE THE COMMISSION WITH A CHART OF THE ACCOUNTS THE COMPANY MAINTAINS?

A. Attached to this testimony is a chart of the accounts maintained by the Company.

Q. WILL THE COMPANY FILE THE REQUIRED REPORTS AND TAX RETURNS?

A. The Company will file all required Annual Reports, invested capital tax returns, public utility tax returns, and telecommunications excise tax returns.

Q. DOES THE COMPANY'S ACCOUNTING SYSTEM PROVIDE SUFFICIENT DETAILED DATA FOR THE PREPARATION OF ILLINOIS GROSS RECEIPTS TAX RETURNS?

A. Yes.

Q. WHAT OTHER REQUIREMENTS WILL THE COMPANY COMPLY WITH AS PROVIDER OF INTEREXCHANGE SERVICES?

A. In addition to filing tariffs, the Company has and will continue to file its Annual Reports with the Commission, the public utility tax payments and returns, and otherwise comply with the requirements imposed on other interexchange carriers providing the types of services.

Q: IS THE COMPANY'S APPLICATION IN THE PUBLIC INTEREST?

A: Yes. Granting the Company's application will further the public interest by expanding the availability of technologically advanced telecommunications facilities. The Company's offerings will provide Illinois consumers with the option of selecting from a wide range of innovative and personalized services that offer a number of significant technologic advantages in comparison to other access media. The Company's voice and data offerings will be able to maintain consistent, high speeds of service while providing secure connections that enable consumers to complete calls, and businesses to transfer data.

Q: DOES THIS CONCLUDE YOUR TESTIMONY?

A: Yes.

Account Listing

June 11, 2002

Accnt. #	Account
1-1100	1-1100 · Cash
1-1110	1-1100 · Cash:1-1110 · Checking
1-1140	1-1100 · Cash:1-1140 · Petty Cash
1-1350	1-1100 · Cash:1-1350 · Certificates of Deposit
1-1200	1-1200 · Accounts Receivable
1-1201	1-1200 · Accounts Receivable:1-1201 · Allowance for Doubtful Accounts
1-1400	1-1400 · Suspense Accounts
1-1440	1-1400 · Suspense Accounts:1-1440 · Colorado Clearing
1-1410	1-1400 · Suspense Accounts:1-1410 · MYOB outstanding checks
1-1420	1-1400 · Suspense Accounts:1-1420 · ADP Checks clearing
1499	1499 · Undeposited Funds
1120	1120 · Inventory Asset
1-1299	1-1299 · Other Receivables
1-1205	1-1299 · Other Receivables:1-1205 · RBOC Commissions Receivable
1-1211	1-1299 · Other Receivables:1-1211 · LD Receivables
1-1220	1-1299 · Other Receivables:1-1220 · Loans Receivable
1-1260	1-1299 · Other Receivables:1-1260 · Due from PackeTel
1-1270	1-1299 · Other Receivables:1-1270 · Due from SiteNet
1-1280	1-1299 · Other Receivables:1-1280 · Due from Metrolink
1-2430	1-2430 · Security Deposits
1-2100	1-2100 · Furniture & Fixtures
1-2110	1-2100 · Furniture & Fixtures:1-2110 · Furniture & Fixtures Org Cost
1-2405	1-2100 · Furniture & Fixtures:1-2405 · Accum Deprec Furn & Fixtures
1-2200	1-2200 · Leashold Improvements
1-2210	1-2200 · Leashold Improvements:1-2210 · Leasehold Improvements Org Cost
1-2420	1-2200 · Leashold Improvements:1-2420 · Accum Deprec LHI
1-2300	1-2300 · Computer Equipment
1-2310	1-2300 · Computer Equipment:1-2310 · Office Systems Equip Org Cost
1-2320	1-2300 · Computer Equipment:1-2320 · Office Computer Equip Org Cost
1-2330	1-2300 · Computer Equipment:1-2330 · Producton Comp Equip Org Cost
1-2410	1-2300 · Computer Equipment:1-2410 · Accum Deprec Equipment
2-1200	2-1200 · Accounts Payable
2-2210	2-2210 · AMEX
2-2200	2-2200 · MBNA Corporate Cards
2-1500	2-1500 · Other accrued expenses
2-1300	2-1300 · Sales Tax Payable

OFFICIAL FILE

U.C.C. DOCKET NO. 02-0378

APPLICANT'S Exhibit No.

Witness SMITH

Date 6/19/02 Reporter CLK

Interactive Services, Inc.
Account Listing
June 11, 2002

Accnt. #	Account
2-1400	2-1400 · Accrued Payroll and Taxes
2-1460	2-1460 · Accrued corporate taxes
2-1470	2-1470 · 401k Contributions
2-1600	2-1600 · Customer Deposits
3-1100	3-1100 · Common Stock
3-1200	3-1200 · Paid in Capital
3-8000	3-8000 · Retained Earnings - S Corp
3-8500	3-8500 · Retained Earnings - C Corp
4-1100	4-1100 · RBOC Sales
4-1110	4-1100 · RBOC Sales:4-1110 · Ameritech Sales
4-1140	4-1100 · RBOC Sales:4-1140 · PacBell Sales
4-1150	4-1100 · RBOC Sales:4-1150 · Bell South Sales
4-1160	4-1100 · RBOC Sales:4-1160 · SWBT Sales
4-1180	4-1100 · RBOC Sales:4-1180 · Qwest Sales
4-1500	4-1500 · ISI Long Distance Sales
4-1510	4-1500 · ISI Long Distance Sales:4-1510 · LD MRC and other charges
4-1520	4-1500 · ISI Long Distance Sales:4-1520 · LD Usage
4-1530	4-1500 · ISI Long Distance Sales:4-1530 · LD taxes and assessments
4-1550	4-1500 · ISI Long Distance Sales:4-1550 · Phone Card Sales
4-1200	4-1200 · CPE Sales
4-1250	4-1200 · CPE Sales:4-1250 · Labor Sales
4-1270	4-1200 · CPE Sales:4-1270 · Consulting Services Sales
4-1400	4-1200 · CPE Sales:4-1400 · Hardware/Software Sales
4-1700	4-1200 · CPE Sales:4-1700 · Clarent Maintenance
4-2000	4-1200 · CPE Sales:4-2000 · Shipping Fees Collected
4-2200	4-1200 · CPE Sales:4-2200 · Discounts
4-5000	4-1200 · CPE Sales:4-5000 · Norstar Maintenance Sales
4-4000	4-4000 · Miscellaneous Income
5000	5000 · Cost of Goods Sold
5-1499	5-1499 · RBOC Cost of Sales
5-1450	5-1499 · RBOC Cost of Sales:5-1450 · BellSouth COS
5-1400	5-1499 · RBOC Cost of Sales:5-1400 · Ameritech Network COS
5-1440	5-1499 · RBOC Cost of Sales:5-1440 · PacBell COS
5-1460	5-1499 · RBOC Cost of Sales:5-1460 · SWBT COS
5-1480	5-1499 · RBOC Cost of Sales:5-1480 · Qwest COS
5-1300	5-1300 · Long Distance Costs

Interactive Services, Inc.
Account Listing
June 11, 2002

Accnt. #	Account
5-1310	5-1300 · Long Distance Costs:5-1310 · Excise taxes
5-1350	5-1300 · Long Distance Costs:5-1350 · LD phone cards purchased
5-1000	5-1000 · CPE Purchases
5-1100	5-1000 · CPE Purchases:5-1100 · Equipment/Software Purchases
5-1200	5-1000 · CPE Purchases:5-1200 · Labor Purchases
5-1500	5-1000 · CPE Purchases:5-1500 · Consulting Services Purchased
5-1700	5-1000 · CPE Purchases:5-1700 · Clarent Maintenance purchased
5-2000	5-1000 · CPE Purchases:5-2000 · Freight purchased
5-3050	5-1000 · CPE Purchases:5-3050 · Data maintenance purchased
5-5000	5-5000 · Commissions Paid
5-5400	5-5000 · Commissions Paid:5-5400 · Commissions on consulting
5-5100	5-5000 · Commissions Paid:5-5100 · Commission expense network
5-5200	5-5000 · Commissions Paid:5-5200 · Commission - LD
5-5300	5-5000 · Commissions Paid:5-5300 · Commissions on CPE and other
6-1000	6-1000 · Personnel Expenses
6-2235	6-1000 · Personnel Expenses:6-2235 · Recruiting
6-1900	6-1000 · Personnel Expenses:6-1900 · Payroll Expenses
6-1910	6-1000 · Personnel Expenses:6-1900 · Payroll Expenses:6-1910 · Override compensation
6-1901	6-1000 · Personnel Expenses:6-1900 · Payroll Expenses:6-1901 · Wages
6-1920	6-1000 · Personnel Expenses:6-1900 · Payroll Expenses:6-1920 · Payroll taxes
6-2050	6-1000 · Personnel Expenses:6-1900 · Payroll Expenses:6-2050 · Payroll Service Fees
6-1410	6-1000 · Personnel Expenses:6-1410 · Employee benefits
6-2300	6-1000 · Personnel Expenses:6-2300 · T & E
6-2301	6-1000 · Personnel Expenses:6-2300 · T & E:6-2301 · Entertainment
6-2310	6-1000 · Personnel Expenses:6-2300 · T & E:6-2310 · Travel
6-2320	6-1000 · Personnel Expenses:6-2300 · T & E:6-2320 · Business Meals
6-1420	6-1000 · Personnel Expenses:6-1420 · Employee appreciation
6-1725	6-1000 · Personnel Expenses:6-1420 · Employee appreciation:6-1725 · Office refreshment
6-1300	6-1000 · Personnel Expenses:6-1300 · Dues & Subcriptions
6-1630	6-1000 · Personnel Expenses:6-1630 · Leased vehicles
6-2210	6-1000 · Personnel Expenses:6-2210 · Mobile telephone and pagers
6-2225	6-1000 · Personnel Expenses:6-2225 · Traning and seminars
6-2230	6-1000 · Personnel Expenses:6-2230 · Temporary Help
6-2000	6-2000 · Facilities
6-2100	6-2000 · Facilities:6-2100 · Rent
6-2400	6-2000 · Facilities:6-2400 · Utilities

Interactive Services, Inc.
Account Listing
June 11, 2002

Accnt. #	Account
6-2410	6-2000 · Facilities:6-2400 · Utilities:6-2410 · Gas
6-2420	6-2000 · Facilities:6-2400 · Utilities:6-2420 · Electricity
6-2200	6-2000 · Facilities:6-2200 · Equipment expenses
6-2150	6-2000 · Facilities:6-2200 · Equipment expenses:6-2150 · Software
6-2160	6-2000 · Facilities:6-2200 · Equipment expenses:6-2160 · Computer hardware
6-1700	6-2000 · Facilities:6-1700 · Maintenance & repair
6-1710	6-2000 · Facilities:6-1700 · Maintenance & repair:6-1710 · IT services
6-2255	6-2000 · Facilities:6-1700 · Maintenance & repair:6-2255 · Fire & Security
6-1800	6-2000 · Facilities:6-1800 · Office Supplies
6-1860	6-2000 · Facilities:6-1860 · Postage and express
6-1850	6-2000 · Facilities:6-1850 · Printing
6-2430	6-2000 · Facilities:6-2430 · Telecommunications
6-1100	6-2000 · Facilities:6-1100 · Depreciation expense
6-3000	6-3000 · Other operating expenses
6-1001	6-3000 · Other operating expenses:6-1001 · Advertising
6-1004	6-3000 · Other operating expenses:6-1001 · Advertising:6-1004 · Golf Outing
6-1002	6-3000 · Other operating expenses:6-1001 · Advertising:6-1002 · Marketing Campaigns
6-1003	6-3000 · Other operating expenses:6-1001 · Advertising:6-1003 · Incidental gifts to customers
6-1070	6-3000 · Other operating expenses:6-1070 · Charitable contributions
6-1080	6-3000 · Other operating expenses:6-1080 · Consulting services
6-3100	6-3000 · Other operating expenses:6-3100 · Finance expenses
6-3120	6-3000 · Other operating expenses:6-3100 · Finance expenses:6-3120 · Credit expenses
6-3110	6-3000 · Other operating expenses:6-3100 · Finance expenses:6-3110 · Taxes, licenses and fees
6-1050	6-3000 · Other operating expenses:6-3100 · Finance expenses:6-1050 · Bank fees
6-1030	6-3000 · Other operating expenses:6-3100 · Finance expenses:6-1030 · Bad debt expense
6-1055	6-3000 · Other operating expenses:6-3100 · Finance expenses:6-1030 · Bad debt expense:6-1055 · Collection fees and costs
6-1400	6-3000 · Other operating expenses:6-1400 · Insurance
6-1600	6-3000 · Other operating expenses:6-1600 · Legal and Accounting
6-2500	6-3000 · Other operating expenses:6-2500 · Misc. Expense
8-1000	8-1000 · Interest income
8-1500	8-1500 · Finance Charges
2	2 · Purchase Orders
4	4 · Estimates